

**ERIE COUNTY CLERKS OFFICE****County Clerk's Recording Page**

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Return To:SUBSEA OIL & GAS INC
PO BOX 102

ELMA NY 14059

Party 1:

LOTEMPIO BRIAN D

Party 2:

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Doc Type: **OIL&GAS LEASE <500**

Rec Date: 11/24/2008

Rec Time: 10:03:36 AM

Control #: 2008236664

User ID: **cynthia**

Trans Num: 626323

DEED SEQ: **TT2008007625**

MTG SEQ:

UCC:

SCAR:

INDEX:

Recording Fees:

RECORDING	\$32.00
COE CO RET	1.00
COE STATE GENERAL	\$14.25
COE STATE RM	\$4.75
TP584	\$10.00

Consideration Amount: \$1.00

BASIC	\$0.00
SONYMA	\$0.00
ADDL	\$0.00
NFTA MT	\$0.00
TRANSFER	\$0.00
NFTA TT	\$0.00

Total: \$62.00
STATE OF NEW YORK
ERIE COUNTY CLERK'S OFFICEWARNING - THIS SHEET CONSTITUTES THE CLERK'S ENDORSEMENT,
REQUIRED BY SECTIONS 319&316-a (5) OF THE REAL PROPERTY LAW
OF THE STATE OF NEW YORK. DO NOT DETACH. THIS IS NOT A BILL.Kathleen C. Hochul
County Clerk

OIL AND GAS LEASE

Agreement Made and entered into the October 4, 2008, by and between

BRIAN D IOTEMPIO & KIMBER IOTEMPIO

2376 MARCH RD, EDEN, NY 14057

part ie of the first part, hereinafter called the Lessor and

Subsea Oil & Gas Inc., P.O. Box 102, Elma, New York 14059

party of the second part, hereinafter called the Lessee

WITNESSETH: That for and in consideration of One Dollar (\$1.00), paid in hand by Lessee, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and of the premises, mutual covenants and agreements hereinafter set forth, the Lessor and Lessee agree as follows:

1. LEASING CLAUSE. Lessor hereby grants, leases and lets exclusively to Lessee all the oil and gas and their constituents, whether hydrocarbon or non-hydrocarbon, underlying the land herein leased, "the Leasehold", together with such exclusive rights as may be necessary or convenient for Lessee, at its election, to explore for, develop, produce, measure, and market production from the Leasehold, and from adjoining lands, using methods and techniques which are not restricted to current technology, including the exclusive right to conduct geophysical and other exploratory tests; to drill, maintain, operate, cease to operate, plug, abandon, and remove wells; to use or install roads, electric power and telephone facilities, and to construct pipelines with appurtenant facilities, including data acquisition, compression and collection facilities for use in the production and transportation of products from the Leasehold and from neighboring lands across the Leasehold, and such rights shall survive the term of this agreement for so long thereafter as operations are continued; to use oil, gas, and non-domestic water sources, free of cost, to store gas of any kind underground, regardless of the source thereof, including the injecting of gas therein and removing the same therefrom; to protect stored gas; to operate, maintain, repair, and remove material and equipment.

2. DESCRIPTION. The Leasehold is located in the Town(s) of EDEN, in the County of ERIE, in the State of New York, and described as follows:

Tax Map No(s): 223.00-1-15 and is bounded substantially by lands now or formerly owned as follows:

On the North By:	<u>CALDWELL</u>
On the East By:	<u>BREIDENSTEIN</u>
On the South By:	<u>MARCH RD</u>
On the West By:	<u>HEFERLE</u>

and being lands conveyed to Lessor by deed or other Document, recorded in Book 11041 at Page 1446 of the records of said county, and described for the purposes of this agreement as containing a total of 16.7 acres, whether actually more or less, and including contiguous lands owned by Lessor.

3. LEASE TERM. This Lease shall remain in force for a primary term of ten years from the above date, (the "effective date") and for as long thereafter as prescribed payments are made, or for as long thereafter as operations are conducted on the Leasehold in search of or production of oil, gas, or their constituents, or for as long as a well capable of production is located on the Leasehold, or for as long as extended by provision herein, or for as long as the Leasehold is used for the underground storage of gas, or for the protection of stored gas. If after the primary term the last producing well on the Leasehold is plugged and abandoned, the Leasehold will remain under Lease for an additional period of one year from the date of plugging and abandonment, subject to the payment of delay rental.

4. PAYMENTS TO LESSOR. Lessee covenants to pay Lessor, proportionate to Lessor's percentage of ownership, as follows:

(A) **DELAY RENTAL:** If operations for drilling are not commenced on the Leasehold or lands pooled or unitized therewith, or any part hereof, within ninety days from the effective date, Lessee shall, to continue this Lease in full force and effect, make payment to Lessor a Delay Rental at the rate of 5.00 Dollars per net mineral acre per year, payments to be made annually until the commencement of a well. Delay Rental paid for time beyond the commencement date of Royalty payments shall be credited upon the Royalty payment. Upon conversion to storage, Delay Rental payments shall be reestablished.

(B) **ROYALTY:** Lessee covenants and agrees to deliver to the credit of the Lessor, his heirs or assigns, a royalty of one eighth (1/8) of the gross proceeds (less all applicable excise taxes, including production, severance, gross receipts, ad valorem and windfall profit taxes, and less transportation, compression, dehydration, treatment and gathering costs and deductions for free gas under paragraph 6 realized from the sale of gas produced or withdrawn from those strata or horizons of the premises not used for storage of gas and from the sale of oil produced or withdrawn from the premises, which gas and oil is sold and used off the premises. Lessee may withhold Royalty payment until such time as the total withheld exceeds twenty-five dollars (\$25.00).

(C) **SHUT-IN:** In the event that production of oil, gas, or their constituents is interrupted and not marketed for a period of six months, and there is no producing well on the Leasehold or lands pooled or unitized therewith, Lessee shall thereafter, as Royalty for constructive production, pay a Shut-in Royalty equal in amount and frequency to the Delay Rental until such time as production is re-established and said payment shall maintain this Lease in full force and effect to the same extent as payment of Royalty. During Shut-in, Lessee shall have the right to rework, stimulate, or deepen any well on the Leasehold or drill a new well on the Leasehold in an effort to re-establish production, whether from an original producing formation or from a different formation. In the event that the production from the only producing well on the Leasehold or lands pooled or unitized therewith is interrupted for a period of less than six months, this Lease shall remain in full force and effect without payment of Royalty or Shut-in Royalty.

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(D) SUSPENSE / ESCROW: Lessee shall be allowed to suspend and/or Escrow royalty payments into an interest bearing account, pending the issuance of a Spacing Order by the appropriate Governmental authority, or created by contract right, for any well drilled on the Leasehold or lands pooled or unitized therewith. This suspension and/or creation of an Escrow Account shall, for purposes of this Lease, be considered the Payment of Royalty.

(E) DAMAGES: Lessee will remove unnecessary equipment and materials and reclaim all disturbed lands at the completion of activities, and Lessee agrees to repair any damaged improvements to the land and pay for the loss of crops or marketable timber.

(F) MANNER OF PAYMENT: Lessee shall make or tender all payments due hereunder by check, payable to Lessor, at Lessor's last known address, and Lessee may withhold any payment pending notification by Lessor of a change in address.

(G) CHANGE IN LAND OWNERSHIP: Lessee shall not be bound by any change in the ownership of the Leasehold until furnished with such documentation as Lessee may reasonably require. Pending the receipt of documentation, Lessee may elect either to continue to make or withhold payments as if such a change had not occurred.

(H) TITLE: If Lessee receives evidence that Lessor does not have title to all or any part of the rights herein leased, Lessee may immediately withhold payments that would be otherwise due and payable hereunder to Lessor until the adverse claim is fully resolved.

(I) LIENS: Lessee may at its option pay and discharge any past due taxes, mortgages, judgments, or other liens and encumbrances on or against any land or interest included in the Leasehold; and Lessee shall be entitled to recover from the debtor, with legal interest and costs, by deduction from any future payments to Lessor or by any other lawful means.

(J) NOTICE: In the event Lessor considers that Lessee has not complied with any or all its obligations hereunder, both express and implied, Lessor shall notify Lessee in writing, via certified United States mail, setting out specifically in what respects Lessor considers Lessee has breached this contract. Lessee shall then have sixty (60) days after receipt of said notice within which to meet or commence to meet all or any part of the breaches alleged by Lessor. The service of said notice shall be precedent to the bringing of any action by Lessor on said Lease for any cause, and no such action shall be brought by Lessor until the lapse of sixty (60) days after service of such notice on Lessee. Neither the service of said notice nor the doing of any act by Lessee aimed to meet all or any of the alleged breaches shall be an admission or presumption that Lessee has failed to perform all its obligations hereunder. It is agreed that this Lease shall never be forfeited or cancelled for Lessee's failure to perform, in whole or in part, any of its implied covenants, conditions, or stipulations, including payment of any rentals and royalties due under this Lease, until it shall have been first finally judicially determined that such failure exists, by a final order of a court of competent jurisdiction and after such final determination, Lessee is given a reasonable time therefrom to comply with any such covenants, conditions, or stipulations.

5. UNITIZATION. Lessor grants Lessee the right to pool, unitize, or combine all or parts of the Leasehold with other lands, whether contiguous or not contiguous, leased or unleased, whether owned by Lessee or by others, at a time before or after drilling to create drilling or production units either by contract right or pursuant to Governmental Authorization or order. Such units will not exceed 640 acres (or such other size as allowed by the appropriate Governmental Authority). Where Lessee forms a unit by contract right, it may, at its' sole option, place of record, a copy of its Declaration of Unitization. Lessor shall be provided with notice of the formation of unit(s) as may be required under the Unitization Requirements of the appropriate Governmental Authority. Whether unit(s) are formed by contract right or by appropriate Governmental Authority, for all purposes of this Lease, the Leasehold shall be deemed to be unitized effective with the spud date of any well for which any portion of the leasehold is finally determined to be included in the Unit(s) therefore. Lessee is granted the right to change the size, shape, and conditions of operation or payment of any unit created. Lessor agrees to accept and receive out of the production or the revenue received from the production of such unit, such proportional share of the Royalty from each unit well as the number of Leasehold net acres included in the unit bears to the total number of acres in the unit. Otherwise, drilling, operations in preparation for drilling, production, or shut-in production from the unit, or payment of Royalty or Delay Rental shall have the same effect upon the terms of this Lease as if a well were located on the Leasehold.

6. FREE GAS. Lessor reserves for lessor occupied principal dwelling on the leasehold from one gas producing well located on the surface of the Leasehold (excepting well(s) used for storage or protection of gas storage) and only for as long as commercial gas production exists from said well, two hundred thousand (200,000) cubic feet of gas per year. Lessor permanently waives all rights to take physical possession of such reserved gas. Lessee agrees to pay once annually to Lessor, the cash value of such reserved gas at the average wellhead price received by Lessee, based upon seven eighths (7/8th) of gross proceeds received by Lessee for gas produced from the Leasehold or the Lessee's nearest gas production to the Leasehold, less taxes gathering costs, dehydration costs, compression costs, transportation costs and/or any other costs whether necessary or incidental to the marketing of said gas. If Lessor conveys a portion of its interest in the leasehold, Lessor may convey this reserved gas (cash value) as part of such conveyance, but shall not subdivide such reserved gas (cash value).

7. FACILITIES. Lessee shall not drill a well within 200 feet of any structure located on the Leasehold without Lessor's written consent. Lessor shall not erect any building or structure, or plant any trees within 200 feet of a well or within 25 feet of a pipeline without Lessee's written consent. Lessor shall not improve, modify, degrade, or restrict roads and facilities built by Lessee without Lessee's written consent.

8. CONVERSION TO STORAGE. Lessee is hereby granted the right to convert the Leasehold to gas storage. At the time of conversion, Lessee shall pay Lessor's proportionate part for the estimated recoverable gas remaining in the well using methods of calculating gas reserves as are generally accepted by the natural gas industry and Lessor shall be paid Delay Rental for as long thereafter as the Leasehold is used for gas storage or for protection of gas storage.

9. TITLE AND INTERESTS. Lessor hereby warrants generally and agrees to defend title to the Leasehold and covenants that Lessee shall have quiet enjoyment hereunder and shall have benefit of the doctrine of after acquired title. Should any person having title to the Leasehold fail to execute this Lease, the Lease shall nevertheless be binding upon all persons who do execute

it as Lessor. If this lease covers a less interest in the oil and gas, and their constituents, granted herein in all or any part of the Leasehold than the entire and undivided fee simple estate (whether Lessor's interest is herein specified or not), or no interest therein, then the royalties and other moneys accruing from any part as to which this lease covers less than such full interest, shall be paid only in the proportion which the interest therein, if any, covered by this lease, bears to the whole and undivided fee simple estate therein.

10. LEASE DEVELOPMENT. There is no covenant to develop the Leasehold within a certain time frame, and there shall be no Leasehold forfeiture for implied covenant to produce. Provisions herein constitute full compensation for privileges herein granted.

11. FORCE MAJEURE. This Lease and its expressed or implied covenants shall not be subject to termination, forfeiture of rights, or damages due to failure to comply with obligations if compliance is prevented by acts of God, federal, state, or local law, regulation, or decree, or any circumstance reasonably beyond the control of Lessee.

12. CONTINUING OPERATIONS. If, at the expiration of the primary term of this Lease, there is no production of oil, gas or condensate on the Leasehold or lands pooled or unitized therewith, but Lessee is engaged in operations for drilling, reworking, plugging back or deepening a well thereon, this Lease shall remain in force and its term shall continue for so long as such operations or additional drilling, reworking, plugging back or deepening are prosecuted with no cessation of more than ninety (90) consecutive days and if any such operations result in the production of oil, gas or condensate covered hereby, as long thereafter as there is production from the Leasehold or lands pooled or unitized therewith, or the term of this Lease is otherwise extended by any of the provisions herein.

13. CESSATION OF PRODUCTION. If, within the primary term of this Lease, production of oil, gas or condensate on the Leasehold or lands pooled or unitized therewith shall cease, this Lease shall continue in force, and the Lessee may commence operations for drilling, reworking, plugging back or deepening of a well or may in lieu thereof commence or resume the payment of Delay Rentals on or before the anniversary date of the Effective Date of this Lease next following the 120th day after such cessation of production. If, after the expiration of the primary term of this Lease, production of oil, gas or condensate on the Leasehold, or lands pooled or unitized herewith, should cease, this Lease shall not terminate, provided that Lessee commences operations for drilling, reworking, plugging back or deepening a well within ninety (90) days from such cessation, and this Lease shall remain in force during the prosecution of such operations, and for so long as such operations are prosecuted with no cessation of more than ninety (90) days, and, if production of oil, gas or condensate results from such operations, then this Lease shall remain in force and effect for so long as production continues or operations are being conducted as herein provided, or the term of this Lease is otherwise extended by any of the provisions herein. At the expiration of the primary term of this lease Lessee's pipeline rights granted herein shall continue upon payment of Two Dollars (\$2.00) per foot to Lessor when exercised excepting where lease has previously been pooled or unitized.

14. ENTIRE CONTRACT. The entire agreement between Lessor and Lessee is embodied herein. No oral warranties, representations, or promises have been made or relied upon by either party as an inducement to or modification of this Lease.

15. SURRENDER. Lessee may surrender and cancel this Lease as to all or any part of the Leasehold by recording a Surrender of Lease, and if a partial surrender, the Delay Rental provided in the PAYMENTS clause shall be reduced in proportion to the acreage surrendered.

16. SUCCESSORS. All rights, duties, and liabilities herein benefit and bind Lessor and Lessee and their heirs, successors, and assigns.

17. CANCELLATION OF LEASE. IF THIS LEASE BECOMES FORFEITED, TERMINATED OR EXPIRES, THE LESSEE, OR IF THE LEASE HAS BEEN ASSIGNED, THE ASSIGNEE IS REQUIRED TO PROVIDE A DOCUMENT CANCELING THE LEASE AS OF RECORD, AT NO COST TO THE CURRENT LAND OWNER. IF THE LESSEE OR ASSIGNEE FAILS TO CANCEL THE LEASE, THE CURRENT LANDOWNER MAY COMPEL A CANCELLATION PURSUANT TO SECTION 15-304 OF THE GENERAL OBLIGATIONS LAW.

18. STATUTORY STATEMENT. THIS IS A LEASE OF OIL AND GAS RIGHTS, NOT A SALE, CONTAINING TERMS THAT MAY BE NEGOTIATED BY YOU. YOU HAVE THE RIGHT TO CANCEL THIS LEASE WITHIN THREE BUSINESS DAYS AFTER EXECUTION OF THE LEASE BY NOTIFYING THE LESSEE THAT YOU HAVE CANCELED THIS CONTRACT. IN ORDER TO CANCEL THIS LEASE, YOU MUST EXECUTE A NOTICE OF CANCELLATION IN THE FORM PROVIDED BELOW, MAIL IT TO THE LESSEE AND REFUND ALL AMOUNTS PAID TO YOU BY THE LESSEE WITHIN THE THREE-DAY CANCELLATION PERIOD. THE MAILING MUST BE POSTMARKED WITHIN THE THREE-DAY CANCELLATION PERIOD TO BE EFFECTIVE.

NOTICE OF CANCELLATION

_____, I/WE HEREBY CANCEL THIS LEASE.

DATED: _____

SIGNATURE(S): _____

THE PERSON PRESENTING THIS LEASE TO YOU IS (☒) NOT (☐) A MEMBER OF AAPL (AMERICAN ASSOCIATION OF PROFESSIONAL LANDMEN) AND THEREFORE IS (☒) IS NOT (☐) SUBJECT TO A CODE OF CONDUCT. IF THE PERSON PRESENTING THIS LEASE TO YOU IS SUBJECT TO A CODE OF CONDUCT, A COPY OF THE CODE OF CONDUCT MUST BE PRESENTED TO YOU WITH THIS LEASE. IF APPLICABLE, THE CODE OF CONDUCT PROVIDES A DISPUTE RESOLUTION MECHANISM FOR ANY DISPUTE THAT YOU MAY HAVE REGARDING THE MANNER BY WHICH THIS LEASE WAS PRESENTED TO YOU. IF YOU HAVE ANY SUCH DISPUTE, YOU MAY INVOKE THE DISPUTE RESOLUTION MECHANISM OF THE CODE OF CONDUCT BY CONTACTING THE PERSON OR PERSONS DESIGNATED IN THE CODE OF CONDUCT. THE FAILURE OF THE LESSEE TO PAY ANY ROYALTIES TO YOU AS REQUIRED UNDER THE TERMS OF THE LEASE FOR A PERIOD

OF FOUR CONSECUTIVE MONTHS OR MORE SHALL BE A DEFAULT UNLESS OTHERWISE PROVIDED BY LAW, AND WILL RESULT IN CANCELLATION OF THE LEASE APPLICABLE TO THE TARGET FORMATION OF THE WELL WITHIN THE SPACING UNIT, FOLLOWING WRITTEN NOTIFICATION TO THE LESSEE OF YOUR INTENT TO CANCEL AND SIXTY DAYS FOR THE LESSEE TO CURE THE DEFAULT. IF THE LESSEE HAS A BONA FIDE DISPUTE REGARDING THE GROUNDS FOR CANCELLATION, SUCH DISPUTE AND THE REASONS THEREFOR MUST BE PROVIDED TO YOU IN WRITING OR THE DEFAULT MUST BE CURED WITHIN SUCH SIXTY DAY PERIOD, OTHERWISE THE LEASE SHALL BE CANCELLED.

IN WITNESS WHEREOF, and intending to be legally bound, Lessor hereunto sets their hand(s).

Witness:

Lessor:

Walter P Haker

x Walter P Haker

Lessee:

BY: Walter P Haker
Walter P Haker
President, Subsea Oil & Gas Inc.

ACKNOWLEDGED BY

State of New York)
County of Erie)

ss.:

On October 6, 2008 before me, the undersigned, a notary public in and for said state, personally appeared Walter P Haker, personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity as President of Subsea Oil & Gas Inc., and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed the instrument.

Antoinette Wolcott
Notary Public New York State
Qualified in Erie County
Commission Expires June 30, 2011

Antoinette Wolcott
Notary Public

ACKNOWLEDGED BY SUBSCRIBING WITNESS

State of New York New York)
County of Erie)

ss.:

On October 6, 2008 before me, the undersigned, a notary public in and for said state, personally appeared Walter P Haker, the subscribing witness to the foregoing instrument, with whom I am personally acquainted, who, being by me duly sworn, did depose and say that he/she/they reside(s) at 11413, Arcadia Ct, Marcella Ny 14102 (if place of residence is in a city, include the street and street number if any, thereof) that he/she/they know(s) Walter P Haker to be the individual(s) described in and who executed the foregoing instrument; that said subscribing witness(es) was (were) present and saw said Walter P Haker execute the same; and that said witness(es) at the same time subscribed his/her/their name(s) as a witness(es) thereto.

Antoinette Wolcott
Notary Public New York State
Qualified in Erie County
Commission Expires June 30, 2011

Antoinette Wolcott
Notary Public

6/30/11
County Clerk's Record
State: _____
County: _____
Township: _____
Acres: _____
Term: _____
Dated: _____
To: ***Subsea Oil & Gas Inc.
P O Box 102
Elma, NY 14059

MAIL TO:***
Oil and Gas Lease
From